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SENSITIVE

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SUBJECT: UKRAINE AND MOLDOVA SOLVE THAT DAM PROBLEM

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¶1. (SBU) SUMMARY: Moldova and Ukraine reached a settlement on the disputed ownership of the Novodnestrovsk hydroelectric power plant, which spans the Dniester River and partially sits on Moldovan territory. In return for Chisinau's recognition of Ukraine's full ownership of the power plant, Kyiv recognized some 60 Moldovan property claims in Ukraine and agreed to continue providing Moldova low-cost electricity until June 2009. Following the resolution of this dispute, Ukraine will likely soften its objections to Moldova's Danube River port. END SUMMARY.

POWER PLANT DISCORD

¶2. (SBU) During his May 20 visit to Kyiv, First Deputy Prime Minister Igor Dodon publicly stated that the Republic of Moldova had no claims to the Novodnestrovsk power plant. Despite the Border Treaty ratified in 2001, Moldova had informally disputed the ownership of the Novodnestrovsk power plant. Built by the Soviet Union as a federal asset, the power plant spans the Dniester River and is located on present-day Ukrainian and Moldovan territory. Following the collapse of the Soviet Union, the plant became a state-owned Ukrainian enterprise.

¶3. (SBU) After a critical article published by the pro-GOM newspaper "Nezavisimaya Moldova," Ukraine's Ambassador to Moldova, Sergei Pirozhkov, made harsh public statements rejecting accusations that Ukraine was violating Moldova's sovereign territory. He stressed that, despite speculations, the Republic of Moldova had never claimed ownership of the power plant. However, in his statements Pirozhkov linked recognition of Moldovan property rights in Ukraine (mainly assets owned by the former Moldovan Socialist Soviet Republic), negotiations on the price for supplies of Ukrainian electricity, and Ukraine's participation in the Transnistria settlement talks with the resolution of the Novodnestrovsk issue.

ONE PENNY: A GOOD PRICE FOR A GOOD SOLUTION

¶4. (SBU) During his May 20 visit to Kyiv, First Deputy Prime Minister Igor Dodon held negotiations with Ukrainian officials on the price for and supply of electricity. Currently, Moldova imports over 70% of its electricity from Ukraine, paying 0.04 USD per kilowatt hour (kWh). Moldova's price is considerably lower than the domestic Ukrainian price of 0.062 USD/kWh. Previously, Moldova had agreed to Kyiv's demands of a gradual price increase to 0.06 USD/kWh by July 2009. However, following Dodon's visit, the two sides agreed to raise the price only to 0.05 USD/kWh by July 2009.

¶5. (SBU) Dodon announced that Ukraine would recognize pending Moldovan claims for some 60 properties in Ukraine. Moldovan and Ukrainian officials also resumed talks on the construction of the Novodnestrovsk-Balti-Suceava high-voltage power line to Romania. Although Moldova, Romania and Ukraine have all expressed their

interest in the project and the EU has committed financing, Ukraine had unofficially linked its participation to the resolution of the Novodnistrovsk problem.

16. (SBU) On May 28, local media reported on Moldovan-Ukrainian consultations in Chisinau focused on the environmental impact of the Novodnistrovsk power plant and the oil terminal at Moldova's Giurgiulesti Danube port. The two sides created an expert-level working group to assess the impact of the power plant on the Dniester River. They also agreed to seek assistance via the Convention on Environmental Impact Assessment in a Transboundary Context (Espoo, 1991). (NOTE: Both countries have ratified the Espoo Convention.)

COMMENT

17. (SBU) The Novodnistrovsk power plant has been an irritant in Moldovan-Ukrainian relations, impeding the demarcation of the border and the mutual recognition of property rights. Ukraine's concession to continue providing lower-than-market prices for electricity is an important political sign of support for the GOM. Faced with calls from the opposition to fight for Moldova's rights over the Novodnistrovsk power plant and its electricity, Dodon was able to score an important victory for the GOM. Securing supplies of low-cost electricity will help drive economic growth and keep the electorate happy prior to the national elections in 2009.

KIRBY